

DEBRIEF

Business Rates

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2010 RATING REVALUATION – UNIFORM BUSINESS RATES AND TRANSITIONAL ARRANGEMENTS



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In our July Business Rates Debrief we summarised the Government's consultation with its four options for transitional arrangements in England to accompany the 2010 revaluation next April. Since then, the draft 2010 assessments were published online on 30 September (www.voa.gov.uk/2010) and the Valuation Office Agency (VOA) has issued summary valuations to the vast majority of business ratepayers explaining how the new Rateable Values (RV) have been calculated.

In the absence of any meaningful information on how the new RVs were to be applied to rates bills, these summary valuations may have done more harm than good.

Businesses up and down the land have been up in arms about big RV increases, without appreciating that the impact will be lessened due to a reduction in the Uniform Business Rate (UBR). But who can blame them for this confusion, given that the Government did not see fit to accompany the summary valuations with a clear statement as to how the new RV would impact on rates bills?

Now – seven weeks after the 2010 RVs were released – is the first time that businesses in England can calculate their rates bills for next year with a high degree of accuracy.

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CLARITY IN ENGLAND

The Government has confirmed that a transitional scheme is to be introduced to phase in increases and that the scheme will extend over the full five years of the 2010 revaluation.

Despite almost uniformity of response from businesses and their trade organisations arguing that any increases should be nominal next year on the ground of lack of affordability, it comes as little surprise that the Government has decided to proceed with its preferred option 3, as set out in its July consultation on transitional arrangements. This means that ratepayers face increases of up to 12.5% in next year's bills.

Properties will be defined as either 'large' or 'small' depending upon their RV and there will be different maximum annual percentage increases for these two categories. 'Small' properties are defined as those with 2010 RVs below £18,000 or below £25,500 in London. They will see considerably smaller increases than 'large' properties as set out in the table below. Please note that the transitional relief scheme is RV based, so that even a large business can benefit from these lesser increases for its properties under the RV threshold.

It should be noted that these percentages are expressed in real terms and need to be adjusted in line with the previous September's Retail Prices Index in order to calculate the cash effects. Given that RPI in September 2009 was negative to the tune of -1.4%, the maximum cash increase next year for a 'large' property will be 10.9% and for a 'small' property 3.5%.

As a result of phasing in these increases, the Government will under collect by about £2 billion. In its announcement of the details of the transitional relief package, the Government claimed, somewhat dishonestly, that it is putting in place a £2 billion relief scheme, seeking to give the impression that this is an Exchequer funded package. Nothing could be further from the truth as there will not be a single penny of Government support. Instead a transitional surcharge will be put in place – as occurred at all previous modern revaluations – whereby businesses that should see reduced bills as a consequence of the revaluation, will see their reductions phased in too. The maximum permitted annual decreases will therefore be as shown on page three.

These percentages are also RPI linked, which means that the maximum cash reduction in 2010/11 for a large property will be 5.9%. For small properties the reduction is capped at 21.1%.

Over 300,000 properties will be caught in transitional surcharge next year, paying more than their 'correct' liability, represented by RV x UBR.

The UBR itself has also been confirmed. In its July statement, the Government advised that the UBR would fall from 48.1p this year to about 41.3p in 2010/11 – a reduction of just over 14%. As a consequence of the 1.4% fall in September's RPI, to which UBR is linked, the final UBR has been adjusted downwards to 40.7p.

Properties that do not qualify for small business rates relief pay a UBR top-up in order to fund the cost of that relief – again other businesses pick up the tab, rather than the Exchequer. The Government has decided to impose a substantial increase in this UBR supplement from 0.4p this year to 0.7p in 2010/11. The UBR for large properties will therefore be 41.4p in 2010/11.

The Government is at pains to point out that the revaluation will not lead to additional revenue and the exercise is solely one to redistribute liability in line with relative movements in values between revaluations. On the basis that the total RV increase in England is confirmed at 19%, one might therefore have anticipated a greater than 14% reduction in UBR to retain revenue neutrality. The critical issue, however, is that in setting the UBR for 2010/11, the Government has built in an assumed RV loss from appeals against the 2010 assessments. Businesses will clearly want to ensure that they obtain a share of that anticipated 'loss'.

Whilst the recent announcement regarding UBR and the transitional arrangement schemes are a clear indication of the Government's intention, they are not finalised until they are ratified formally by Parliament. In the case of transitional relief, this includes positive approval of the regulations in both Houses. Those regions (inner London in particular) and sectors facing large revaluation increases will no doubt take the opportunity to call for amendments incorporating smaller annual increases than have now been confirmed.

Transitional arrangements – maximum annual increases

Year	2010/11	2011/12	2012/13	2013/14	2014/15
Large Property maximum increase RV £18,000 and above (£25,500 in London)	12.5%	17.5%	20.0%	25.0%	25.0%
Small Property maximum increase RV below £18,000 (£25,500 in London)	5.0%	7.5%	10.0%	15.0%	15.0%

Note: all percentages are in real terms, ie before inflation adjustment

London's businesses with 2010 assessments above RV £50,000 also face an increase in their liability to assist with funding Crossrail's development. The Greater London Authority intends to charge 2 pence per £ RV from next April. This supplement is outside of the transitional relief scheme and therefore adds about 5% to the rates bill of a property not benefitting from transitional relief and represents a greater proportional increase for those benefitting from transition – see the adjoining example 2010/11 liability calculation.

Many leading business representative organisations including the Confederation of British Industry and the British Retail Consortium called for rates increases to be capped next year at below 10%. They will be extremely disappointed that their lobbying has fallen on deaf ears. There is one remaining glimmer of hope relating to the 2p Crossrail supplement. When calculating the amount of the supplement, the GLA assumed that the 2010 revaluation would result in a 15% total increase in London's RVs. Following publication of the draft 2010 RVs, it is now apparent that the total increase is around 32% and that an additional 10,000 ratepayers will have assessments above the £50,000 threshold (about 25% additional properties). We are assisting the GLA with detailed analysis of the figures as we believe the supplement could be reduced next year without in any way jeopardising the overall funding package or construction programme.

Transitional arrangements – maximum annual decreases

Year	2010/11	2011/12	2012/13	2013/14	2014/15
Large Property maximum decrease RV £18,000 and above (£25,500 in London)	4.6%	6.7%	7.0%	13.0%	13.0%
Small Property maximum decrease RV below £18,000 (£25,500 in London)	20.0%	30.0%	35.0%	55.0%	55.0%

Note: all percentages are in real terms, ie before inflation adjustment

Example 2010/11 rates liability calculation

Assumptions

Office building in Central London
2009/10 rates liability – £100,000
2010 RV to be 75% above 2005 (not unusual for offices in the West End)

2010/11 calculation steps

Maximum increase 10.925% above 2009/10 = £110,925
Add supplement to fund small business rates relief (RV x 0.7p) = £2,525
Add Crossrail supplement (RV x 2p) = £7,216
Total 2010/11 liability = £120,666, ie. an increase of 20.67% above 2009/10

Alternative assumptions and calculations steps

If the ratepayer takes up the 2009/10 rates deferment scheme (see our July debrief for details)
2009/10 payments are therefore reduced by 3% (£3,000) to £97,000
2010/11 payments are increased by half of the deferred amount (£1,500)
2010/11 liability is therefore £120,666 (as above) plus £1,500 = £122,166
2010/11 rates payable is 25.9% greater than that paid for 2009/10

MIST IN WALES

Although the Valuation Office Agency supplied the draft 2010 values to the Welsh Assembly in June at the same time as those for England were advised to the Department for Communities and Local Government, Welsh businesses were given no indication as to the likely 2010 UBR. They too learned of the new assessments at the end of September, but the figures were meaningless until the announcement at the end of October that the UBR in Wales will fall from 48.9p this year to 40.9p in 2010/11. Total RVs in Wales are to increase by 20% and one can see from the 15.2% UBR decrease, before inflation, that the Assembly is also assuming not insignificant RV reductions as a result of the appeals process.

There were no transitional arrangements in Wales following the 2005 revaluation and there does not seem to be an intention to reintroduce them now for the 2010 revaluation. More than 27,500 Welsh businesses are facing RV increases in excess of 25% and if there is no relief granted they will face rates bills at least 10% greater than in 2009/10. For the 9,600 Welsh businesses with RV increases greater than 50%, this is an enormously worrying time.

Perhaps the Assembly's delay in confirming whether or not to give protection from the larger increases is an indication of its concern as to the possible adverse consequences for the businesses affected in this way.

DARKNESS IN SCOTLAND

In the meantime, the position for non-domestic properties in Scotland remains unclear. No announcements have been made by the Scottish Executive regarding draft 2010 RVs, the UBR, transitional relief and other rates relief schemes.

Despite the Scottish Assessors completing their draft valuations by the end of September, ratepayers are no closer to obtaining access to the new 2010 RVs. It is now anticipated that draft figures will be available by mid December.

Assuming the Scottish Government maintains its manifesto promises from 2006, it is anticipated that the UBR will continue to be harmonised with England at 41.4p for large properties for 2010/11. This in turn could lead to a funding shortfall for the Scottish Executive if the total RV increase in Scotland is less than in England.

Will there be a transitional relief scheme? As yet we are no closer to being able to answer this. No consultation paper has been issued and we can only make

assumptions based on feedback from local authorities and our discussions with the Scottish Executive. It is unlikely that the Executive will have sufficient time to carry out a full consultation on a new scheme. The most likely options therefore are that an announcement will be made to the effect that the 2005 scheme will be carried forward for the 2010 Revaluation (phasing increases and decreases over three years) or that there will be no scheme for 2010. This continuing uncertainty is hugely unhelpful as businesses need to be able to budget now for their April 2010 rates bill.

GERALD EVE'S UK OFFICE NETWORK

Gerald Eve is the pre-eminent business rates adviser. We currently advise 23 of the FTSE100 companies on rating matters. So far we have saved our clients occupying over 50,000 properties throughout the UK, more than £900m in rates liabilities since the last revaluation in 2005.

We are very keen to tell you more about our approach and how we can assist you, so please contact Jerry Schurder on 020 7333 6324, jschurder@geraldev.com or your usual Gerald Eve contact to find out more.

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